

**THE HIGH SCHOOL ATTAINMENT CREDIT:
A TAX CREDIT ENCOURAGING STUDENTS
TO GRADUATE FROM HIGH SCHOOL**

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April 1, 2005

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ABSTRACT

High school dropouts are a serious problem facing America today. High school dropouts are more likely to be unemployed, earn less money when employed, place a larger burden on the government by requiring public assistance (welfare), and are more likely to be prone to a life of crime and violence than high school completers. While government at all levels continues to focus on schools and teachers in solving the dropout problem, this paper shows how parents are where the focus should lie. This paper proposes a revolutionary tax credit, the High School Attainment Credit ("HSAC"), which would cost-effectively eradicate the high school dropout problem by encouraging parents to motivate their children to learn.

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INTRODUCTION

As you read this page a student in America just made the conscious decision to drop out of high school.¹ This student has his own reasons for dropping out. He might be seeking minimum-wage employment to earn some money, or he might have a child to care for at home, or worst of all, he might simply feel that an education is worthless and that school is a complete waste of his time.² Those students that drop out of high school because they feel an education is insignificant need the most help. They do not realize that a basic high school education is an invaluable asset for a successful life in America today.³ Unless you have a voice worthy of "American Idol" or amazing athletic talent, it will be difficult for you to succeed in life. Even if you are one of the fortunate few that have extraordinary talents as a teenager, an education is nevertheless worth leaps

¹ See PHILIP KAUFMAN ET AL. DROPOUT RATES IN THE UNITED STATES: 2001 6 (U.S. Dep't of Educ. Nat'l Center for Educ. Stat. Wash., D.C.: U.S. Gov't Prtg. Off. 2004) (assuming both that it takes you approximately one minute to read this page and assuming that approximately 500,000 students a year dropout of high school, which equates to an average of one dropout per minute).

² See David Brunsmma et al., *Increasing the Motivation of Secondary School Students*, AM. SECONDARY EDUC. J. vol. 25 at 11 (1996).

³ STEVEN J. INGELS ET AL., COMING OF AGE IN THE 1990s: THE EIGHTH-GRADE CLASS OF 1988 12 YEAR LATER 29-30 (U.S. Dep't of Educ., Nat'l Center for Educ. Stat. Wash., D.C.: U.S. Gov't Prtg. Off. June 2002). See also THOMAS D. SNYDER & CHARLENE M. HOFFMAN, DIGEST OF EDUCATION STATISTICS: 2003 458 (U.S. Dep't of Educ. Nat'l Center for Educ. Stat. Wash., D.C.: U.S. Gov't Prtg. Off. Dec. 2004).

and bounds as it will help you make more informed decisions throughout your life.

This dissertation will show how a slight change in the current tax code could radically change the future landscape of America, while increasing current and long term tax revenue for the United States Government. The basics of my proposal, the High School Attainment Credit (hereinafter, "HSAC"), involve eliminating the current child tax credit embodied in Section 24 of Title 26 of United States Code and replacing it with a one time refundable tax credit of \$10,000 for the parents of every child that graduates from high school.⁴ HSAC will focus specifically on the high school dropout problem that has plagued our great nation for years.⁵ While some may be skeptical at first of HSAC, this dissertation will show how parents can motivate their children to learn, and a how a monetary incentive will encourage parents to help educate their children.

First, in Part I, I will detail the current high school dropout rates and their devastating and everlasting effects on America. In Part II, I will discuss what the United States Government is currently doing in response to the high school dropout problem. In Part III, I will describe how parents can motivate their children to attend school and ultimately graduate

⁴ 26 U.S.C. § 24 (2004).

⁵ KAUFMAN ET AL., *supra* note 1, at 6.

from high school. In Part IV, I will discuss how a monetary incentive would motivate parents to play an active role in helping their children graduate from high school. In Part V, I will discuss the current child tax credit and its flaws.⁶ In Part VII, I will present HSAC and address potential criticism surrounding it. Finally, Part VI will conclude this dissertation by exploring all of the possible long-term benefits of HSAC.

I. HIGH SCHOOL DROPOUT RATES IN THE UNITED STATES

Obtaining an education is one of the most important things anybody can do with his or her life. Every level of education from high school through graduate school can open up a variety of doors allowing one to be successful in life. However, many teenagers do not realize that the American Dream whereby by someone can work hard and achieve requires a basic high school education. These teenagers are clouded with images of pop stars, athletes, and celebrities that have made fortunes without obtaining a college education and in many instances, without obtaining a high school education. Thus, students with a low tolerance for education perceive no resulting value from their schoolwork and in turn, lower their effort.⁷ These students take

⁶ 26 U.S.C. § 24 (2004).

⁷ Brunsmma et al., *supra* note 2, at 11. See also Erika Hayasaki & Erica Williams, *Staying the Course at L.A.'s Urban High Schools*, L.A. TIMES, Mar. 25, 2005, at A1 (quoting Luis Sanchez, director of Inner City Struggle in Los

the easiest courses they can find in attempt not to drop out, but many of these students ultimately drop out.⁸

While students from all types of family backgrounds drop out of high school, dropouts are more likely to come from poor families and single-parent families.⁹ In 2001 there were "3.8 million 16- through 24-year-olds who were not in high school and who lacked a high school credential."¹⁰ Of these 3.8 million dropouts, approximately 505,000 dropped out during the 2000-2001 school year alone.¹¹ Many of these students do not realize how radically America has changed over the past 50 years.¹² After World War II and through the late 1970s a high school diploma "continued to open doors to many promising career opportunities."¹³ However, with America exiting an industrial workplace and entering a technological work environment, highly skilled labor is in high demand, rendering a high school diploma

Angeles, who said, "[S]tudents are dropping out because they feel the school is not preparing them for much").

⁸ Brunnsma et al., *supra* note 2, at 11.

⁹ JOHN WIRT ET AL., THE CONDITION OF EDUCATION 2004 61 (U.S. Dep't of Educ. Nat'l Center for Educ. Stat. Wash., D.C.: U.S. Gov't Prtg. Off., June 2004) (stating that those children whose families are in the lowest 20 percent of all family incomes are 6 times more likely to dropout of high school than their peers from high-income families). See also High School Dropout - The Learning Revolution, available at http://www.thelearningweb.net/chapter08/high_school_dropouts_page273.html (last visited Mar. 26, 2005) (stating that children of single parents are twice as likely to dropout of high school).

¹⁰ KAUFMAN ET AL., *supra* note 1, at 12. See also WIRT ET AL. *supra* note 9, at 53 (stating that in 2003, 13 percent of all persons ages 16-24 were neither enrolled in school nor working).

¹¹ KAUFMAN ET AL., *supra* note 1, at 6. See also Christopher B. Swanson, Who Graduates in California?, (March 24, 2005), available at <http://www.urban.org/url.cfm?ID=900794> (suggesting that dropout rates may be underestimated nationally after studying California High Schools).

¹² See KAUFMAN ET AL., *supra* note 1, at 1.

¹³ *Id.*

the minimum requirement for many jobs.¹⁴ Thus, a high school education is more important today than ever.

With a high school education being the minimum requirement for many jobs in the labor force, high school dropouts are left with severely limited options for jobs.¹⁵ Statistical data has shown that high school dropouts are more likely to be unemployed than those that complete high school and even when dropouts do secure work, they earn less money.¹⁶ The demise of dropouts does not stop there. Other statistical studies have shown that high school dropouts are more likely to receive government assistance than those that complete high school and do not attend college.¹⁷ Perhaps the most frightening statistic is that high school dropouts make up a disproportionately high percentage of the nation's death row and prison inmates.¹⁸ Finally, "young women who drop out of school are more likely to have children at younger ages and more likely to be single parents than high school completers, making them more likely to rely on public assistance."¹⁹

Taking these studies in whole, high school dropouts are more likely to be unemployed, earn less money when employed,

¹⁴ See SNYDER & HOFFMAN, *supra* note 3, at 458.

¹⁵ *Id.*

¹⁶ *Id.* See also INGELS ET AL., *supra* note 3, at 29-30.

¹⁷ KAUFMAN ET AL., *supra* note 1, at 1.

¹⁸ JAN M. CHAIKEN, PH.D., CORRECTIONAL POPULATIONS IN THE UNITED STATES 1997 48 (U.S. Dep't of Just., Off. of Just. Programs, Bureau of Just. Stat., Wash., D.C.: U.S. Gov't Prtg. Off. 2000) (showing that approximately 40 percent of state and 30 percent of federal prison inmates are high school dropouts).

¹⁹ KAUFMAN ET AL., *supra* note 1, at 1.

place a larger burden on the government by requiring public assistance (welfare), and are more likely to be prone to a life of crime and violence. While high school dropouts are currently and have been a problem for sometime, some may ask if such a problem will persist. In light of the facts above, dropout rates seem to be holding relatively steady with approximately 10% of high school students dropping out each year.²⁰ If one then considers that approximately four million babies were born in 2002, and the majority of such babies will live to the age of majority, then roughly 400,000 of these newborns will not graduate from high school.²¹ Even though the number of babies born in 2002 was a slight decrease compared with 1990, Census data suggests a large population increase in America over the next several years, which in turn suggests that birth rates will at a minimum remain constant, if not rise significantly.²² Coupling these studies strongly suggests that in the near future well over 400,000 students could be dropping out of high school per year. While this problem may appear insurmountable, it can be conquered.

²⁰ *Id.*

²¹ See Paul D. Sutton, et. al., *Trends in Characteristics of Births by States, 1990, 1995, and 2000-2002*, NAT'L VITAL STAT. REPORT, vol. 52, no. 19, at 13 (May 10, 2004). See also KAUFMAN ET AL., *supra* note 1, at 1 (stating that approximately 10% of high school students drop out each year).

²² Sutton, *supra* note 21, at 1. See also U.S. Census Bureau, 2004, at "U.S. Interim Projections by Age, Sex, Race, and Hispanic Origin," <http://www.census.gov/ipc/www/usinterimproj/> (last visited Mar. 8, 2005) (stating that the population in 2020 is expected to be fifty million greater than the population in 2000).

II. WHAT THE GOVERNMENT IS CURRENTLY DOING TO COMBAT THE HIGH SCHOOL DROPOUT PROBLEM

The United State Government's main weapon in attacking the problem of high school dropouts is the "Dropout Prevention Act" (hereinafter, "Dropout Act") that was enacted in 2002.²³ The purpose of the Dropout Act is to raise academic achievement levels by providing money to schools for dropout prevention and reentry programs.²⁴ The Dropout Act focuses on holding schools and teachers accountable for dropouts. It therefore encourages schools and teachers to reduce the number of dropouts, by giving increased grants to schools that reduce the number of dropouts in their school.²⁵

Another weapon in the government's arsenal is the "No Child Left Behind Act of 2001" (hereinafter, "NCLB"), which adds over \$1 billion to help at-risk students meet NCLB's higher testing standards.²⁶ NCLB wants to ensure that high-quality education is available for all and that parents are afforded substantial and meaningful opportunities to participate in the education of their children.²⁷ Still the focus of NCLB, just like the Dropout Act, is on schools, and not on parents. However, while the government focuses on schools, high school teachers cite "lack

²³ 20 U.S.C. §§ 6551-6561 (2004).

²⁴ See *id.* § 6552.

²⁵ See *id.* §§ 6551-6561.

²⁶ Richard S. Dunham, *No High Schooler Left Behind*, BUSINESSWEEK, Mar. 14, 2005, at 100. See also 20 U.S.C. § 6301 (2004).

²⁷ 20 U.S.C. § 6301 (2004).

of parental involvement" as the third most serious problem facing their schools behind student apathy and students coming unprepared to learn.²⁸ Furthermore, only half of the teachers somewhat agree that they receive a great deal of support from parents for the work they do.²⁹ Thus, focusing on parents and not on schools may be a better way to solve the high school dropout problem.

In addition to the government's failure to focus on parents in preventing dropouts, some suggest that NCLB may increase dropouts because it encourages states to have mandated high school exit exams which may be difficult to pass.³⁰ The recent trend in many states requires high school students to pass exit exams in order for them to be eligible to graduate from high school.³¹ Currently 24 states have mandated high school exit exams and even with controversy surrounding them, they are continuing to appear in more states every year.³² While the Center for Education Policy currently does not have enough data to show that higher dropout rates are linked with exit exams, the Center feels there is enough evidence to suggest a

²⁸ SNYDER & HOFFMAN, *supra* note 3, at 91 (surveying public secondary school teachers in 1999-2000).

²⁹ *Id.*

³⁰ See *Anemic Exit Exams*, EDUC. DIG. 70 no. 3, at 68 (2004). See also Ellie Ashford, *Re-Thinking High School Exit Exams*, EDUC. DIG. 69 NO. 2, at 51 (October 2003). But see *Exit Exams Have Mixed Impact*, AM. TEACHER 8 NO. 2, at 11 (October 2003).

³¹ *Anemic Exit Exams*, *supra* note 30, at 68.

³² *Id.* See also Ashford, *supra* note 30, at 51.

relationship between the two factors.³³ However, others, such as the Manhattan Institute, say there is no evidence that the exit exams lower graduation rates.³⁴ The Manhattan Institute cites two main points in support of their proposition: first, exit exams require low academic proficiency for a passing grade and secondly, students are given multiple chances to pass the exams.³⁵ Nevertheless, even if such exams do not affect graduation rates among students, there are significant costs for state governments to institute such exams.³⁶

While costs at the national and federal level are high, they are even more apparent at the local level. Many schools, such as Jefferson High School in Los Angeles, are working on dividing themselves into smaller learning centers in order to give a more personalized approach to students.³⁷ Teachers and school superintendents believe that creating smaller schools that offer a more personal education experience will improve graduation rates.³⁸ Even students say that they feel a good personal approach would help them not only learn, but remain in

³³ *Exit Exams Have Mixed Impact*, *supra* note 30, at 11.

³⁴ *Anemic Exit Exams*, *supra* note 30, at 68.

³⁵ *Id.*

³⁶ *Id.* at 69. Also, see *Exit Exams Have Mixed Impact*, *supra* note 30, at 11 (stating that exams can cost states over \$400 per student to administer).

³⁷ Duke Helfand, *Nearly Half of Black, Latinos Drop Out, School Study Shows*, L.A. TIMES, Mar. 24, 2005, at A1.

³⁸ Cara Mia DiMassa, *Schools' Dropout Remedy: Get Small*, L.A. TIMES, Mar. 26, 2005, at B1.

school.³⁹ However, in order to make schools smaller, schools need more funding. While the federal government does provide tremendous amounts of funding to schools to help them get smaller, both the federal and local governments need a more cost effective way of dealing with high school dropouts, and HSAC with its focus on parents motivating their own children to learn, is a cost-effective solution.⁴⁰

III. CAN PARENTS MOTIVATE THEIR CHILDREN TO GRADUATE FROM HIGH SCHOOL?

"Motivation" is a psychological concept used to describe the reasons why people choose different activities, persist in them, and carry them out with concentration.⁴¹ "While motivation is not directly related to learning (one cannot learn simply because one is motivated to do so), it is positively related to performance. Increased performance can lead to increased learning."⁴² However, for the past several years, a high school diploma alone has not motivated most students to attain an education.⁴³

Many current students feel they deserve whatever they want and at the same time feel basically hopeless about their

³⁹ Hayasaki & Williams, *supra* note 7, at A1 (stating that students like Berhane Azage of Manual Arts High School in South Los Angeles feel a "good personal approach would help").

⁴⁰ DiMassa, *supra* note 38, at B1 (stating that "[t]he U.S. Department of Education's Smaller Learning Communities Program has distributed nearly \$300 million in grants to hundreds of districts since 2000.").

⁴¹ Brunsmas et al., *supra* note 2, at 10.

⁴² *Id.*

⁴³ *Id.* at 11.

future.⁴⁴ In a study of teenagers in 1998, many teenagers reported that they regularly felt depressed about their future, and half of all students polled said they were sometimes very depressed about their future.⁴⁵ Not coincidentally, many of these teenagers hardly talked with their parents about school or the future.⁴⁶ Thus, it is imperative that parents not only involve themselves with their children's education, but they must also take steps to motivate their children to learn.

A. STATISTICS SUGGEST PARENTAL INVOLVEMENT CAN MAKE A DIFFERENCE

While most parental involvement studies are focused on the elementary school setting, research has consistently shown that an increase in parental involvement at the high school level correlates with an increase in student performance.⁴⁷ Even though such involvement at home is more subtle than teachers working directly with students in classrooms, parents are a very significant factor in students' education.⁴⁸ When parents are involved, high school students tend to show higher aspirations,

⁴⁴ Barbara McCombs & Mary Lee Barton, *Motivating Secondary School Students to Read Their Textbooks*, NASSP BULL. vol. 82 no. 600, at 25 (1998).

⁴⁵ *Id.*

⁴⁶ *Id.*

⁴⁷ A.Y. "Fred" Ramirez, "Parent Involvement Is Like Apple Pie": A Look at *Parental Involvement In Two States*, HIGH SCH. J. 85 no. 1, at 1 (Oct./Nov. 2001). See also Rollande Deslandes & Richard Bertrand, *Motivation of Parent Involvement in Secondary-Level Schooling*, J. OF EDUC. RES. vol. 98 no3 at 164-175 (January/February 2005). See also Camille Dominguez, *Involving Parents, Motivating Students*, PRINCIPAL LEADERSHIP 4 no. 4, at 44 (Middle Sch. ed. Dec. 2003).

⁴⁸ See Dominguez, *supra* note 47, at 44.

earn higher grades, and have fewer disciplinary actions.⁴⁹ An important note is that these statistics are not correlated with particular parents.⁵⁰ Families across all income levels, cultural backgrounds, and education levels have encouraged their children to learn by keeping their children focused on school and homework.⁵¹ Thus, any family can have a positive influence on their children's education.⁵²

Despite all of the research showing that students achieve more when parents are involved with their children's education, many parents have accepted the fact that they should become less involved with their children's education as their children advance through the grades.⁵³ While most parents have the adequate skills and knowledge to assist their children in learning, parents allude to their children's desire for independence and negative attitude as their reason for not becoming more involved with their children's education.⁵⁴ These parents also believe that they have less influence over their children's schooling in high school than when their children

⁴⁹ Deslandes & Bertrand, *supra* note 47, at 164-175.

⁵⁰ Anne Henderson & Karen Mapp, *A New Wave of Evidence: The Impact of School, Family, and Community Connections on Student Achievement*, SOUTHWEST EDUC. DEV. LABORATORY, at 34 (2002) (stating that families from all backgrounds can get involved and have an impact in their children's education).

⁵¹ *Id.*

⁵² *Id.*

⁵³ Anne Wescott Dodd, *Parents as Partners, Not Problems*, EDUC. DIG. vol. 63, at 36 (1998).

⁵⁴ *Id.* See also Deslandes & Bertrand, *supra* note 47, at 164-175.

were in elementary school.⁵⁵ Thus, these parents remove the burden of educating their children from their shoulders and place the entire responsibility of educating their children on the schools and teachers.⁵⁶

Parents that place the entire burden of educating their children on others need adequate incentives to play a more active role in their children's education and to encourage their children to graduate from high school.⁵⁷ Currently the thoughts that your child may not succeed in life, or be relegated to minimum-wage employment are not sufficient incentives for many parents to educate their children. Therefore, a monetary incentive, like HSAC, might be the spark that encourages parents to motivate their children to graduate from high school.

B. PARENTS CAN DO MANY SIMPLE AND EASY THINGS TO
MOTIVATE THEIR CHILDREN

While parents have many methods at their disposal for persuading their children to learn, some research suggests that the first and foremost important steps parents can take are believing in their children's capacity to learn, caring about their children and holding high expectations of their children.⁵⁸ When many children find difficulty with a particular subject in

⁵⁵ Deslandes & Bertrand, *supra* note 47, at 164-175.

⁵⁶ See Ramirez, *supra* note 47, at 5-6.

⁵⁷ *Id.* at 6.

⁵⁸ Susan A. Miler & Eileen Shultz, *Persistence-It Keeps Going and Going and Going!*, CHILDHOOD EDUC. VOL. 73, at 44 (Fall 1996). See also McCombs & Barton, *supra* note 44, at 26.

school their parents simply tell them, "Don't worry about it. No one in our family has ever done well" in that subject.⁵⁹ These statements suggest that children inherit the inability to perform well in school.⁶⁰ Thus, children believe they are destined towards failure because of their genetics, and hence do not try to achieve in school.⁶¹ However, studies show that genetics are not the reason why many of these children fail to do well in school, but rather the negative attitudes of the parents regarding their children make children distrust their abilities.⁶² Therefore, if parents can have positive attitudes regarding their children's abilities, they can have a profound influence on their children's education.

Once parents believe in their children's abilities and hold positive attitudes regarding their children's capacity to learn, parents should strive to be role models for their children.⁶³ They should show their children how to approach difficult tasks in a variety of ways without giving up.⁶⁴ If a child fails at first, a parent should emphasize that people make mistakes and should assist the child in learning from his mistakes.⁶⁵ Parents should then show their children how to complete difficult tasks

⁵⁹ Miler & Shultz, *supra* note 58, at 44.

⁶⁰ *Id.*

⁶¹ *Id.*

⁶² *Id.*

⁶³ *Id.*

⁶⁴ *Id.*

⁶⁵ *Id.*

by breaking them up into smaller and easier segments.⁶⁶ Still, since children learn through a variety of techniques, parents should respect other learning styles.⁶⁷ Beyond solving basic problems, if parents can discuss long-term educational goals with children and then work with their children in creating realistic strategies for achieving these goals, success is possible.⁶⁸

In addition to being role models for their children, parents can assist their children by doing many simple acts ranging from creating a quiet work environment for their children at home to asking their children about school.⁶⁹ Parents can also teach their children superior time management skills and encourage them to interact with fellow students that have high academic aspirations.⁷⁰ When parents get involved, not only do children have a greater tendency to do better in school, but they also are more likely to continue their education.⁷¹

After taking a basic interest in their children's education, parents should develop a relationship with their children's teachers.⁷² Currently, many parents have limited

⁶⁶ *Id.*

⁶⁷ *Id.*

⁶⁸ *Id.*

⁶⁹ Dominguez, *supra* note 47, at 44.

⁷⁰ *Id.*

⁷¹ Henderson & Mapp, *supra* note 50, at 30.

⁷² Dominguez, *supra* note 47, at 44.

contact with their children's teachers and schools.⁷³ However, after hearing teachers' comments about their children, parents will have a better understanding of their children's learning strengths and weaknesses.⁷⁴ With a better grasp of their children's educational strengths, parents can build upon those strengths and learn more efficient ways to motivate their children.

In sum, if parents get involved they can motivate their children to learn. Their impact on their children's education can be just as great, if not greater than a teacher's impact on a student's education. Also, once parents get involved and they realize that they have successfully helped their children, many parents want to duplicate that success over and over and do better each time.⁷⁵ All some parents need is an added incentive to encourage them to motivate their children to learn, and a refundable credit through HSAC is just the trick.

⁷³ Dodd, *supra* note 53, at 36.

⁷⁴ See Dominguez, *supra* note 47, at 44.

⁷⁵ *Id.* at 44-45.

IV. CAN MONEY ENCOURAGE PARENTS TO MOTIVATE THEIR CHILDREN?

For thousands of years money has existed in a variety of forms. Since the day money was created and as long as money retains some value, it will forever motivate people do anything and everything imaginable. With many naturally accepting the proposition that money is a powerful motivator, few behavioral psychologists are researching the power of money to motivate.⁷⁶

Edward E. Lawler, III suggests that two conditions must exist for money to be a motivator: first, money has to be important to the individual and second, the individual needs to see a connection between his behavior and the money.⁷⁷ A majority of people value money and it is important to them, thus the first condition is generally easily met.⁷⁸ However, the second condition can be problematic.⁷⁹ While Edward E. Lawler, III looked at monetary compensation in the corporate workplace, his process can be applied to parents with students. Parents likely value money as Lawler suggests.⁸⁰ Consequently, if parents can identify a connection between their behavior and the money they would receive through HSAC, they could likely be induced to educate their children. Under the current child tax

⁷⁶ EDWARD E. LAWLER, III, COMPENSATION REVIEW: MOTIVATING WITH MONEY: EDWARD E. LAWLER, III'S VIEWS 4 (1976) (suggesting that more behavioral psychologists need to research the power of money to motivate).

⁷⁷ *Id.* at 5.

⁷⁸ *Id.*

⁷⁹ *Id.*

⁸⁰ See *Id.* (assuming a majority of people value money parents will likely value money too).

credit the only parental behavior connected with receiving the credit is the act of keeping one's children alive.⁸¹ With children alive and breathing, parents will receive the child tax credit, whether they educate their children or not.⁸² Therefore, HSAC would give parents money if and only if their children graduated from high school. As a result, parents would identify a connection between receiving HSAC and educating their children. Parents would then find ways to help educate their children (as described above) with the goal of having their children graduate from high school. Upon graduation, parents would be rewarded for their stellar parenting with HSAC.

Similar to Lawler's suggestions, others also suggest that monetary incentives are most effective when tied to performance.⁸³ If money is simply paid to an employee or an executive in a corporation no matter what work is produced, people will have little incentive to work hard. However, if money is directly tied to production that is visible, money becomes a very powerful incentive.⁸⁴ Similarly, if money was just given to parents to educate their children, parents might lack the incentive to use their best efforts in educating their children. However, if HSAC is tied to children graduating from

⁸¹ 26 U.S.C. § 24 (2004).

⁸² See *Id.* (showing that no educational requirement is in the child tax credit).

⁸³ WILLIAM FOOTE WHYTE ET AL., *MONEY AND MOTIVATION* 1-8 (Greenwood Press ed., 1977). See also ARCH PATTON, *MEN, MONEY AND MOTIVATION* 33 (McGraw-Hill, 1961).

⁸⁴ WHYTE ET AL., *supra* note 83, at 1-8.

high school, parents will put a much better foot forward in their attempt to educate their children.

In addition to studies on the affects of money on people, the Internal Revenue Code itself implies that money can influence people's actions.⁸⁵ Perhaps the two best examples of this are the deduction for mortgage interest and the preferential capital gains tax rate.⁸⁶ The deduction for interest paid on mortgages encourages people to purchase homes. Similarly, the maximum capital gains rate gives people an incentive to save money for the future. If these sections of the Internal Revenue Code can influence people's actions, HSAC could encourage people to educate their children.

V. THE CURRENT CHILD TAX CREDIT AND OTHER RELEVANT PROPOSALS

The current child tax credit is described in Section 24 of Title 26 of the United States Code.⁸⁷ For taxable year 2005, the maximum child tax credit is \$700 with respect to each qualifying child.⁸⁸ The code defines a "qualifying child" as a child that has not attained age 17 in the taxable year.⁸⁹ Therefore, a maximum of \$700 is only available to children that are 16 years of age or younger during the entire taxable year.⁹⁰ The code

⁸⁵ 26 U.S.C. § 1 et seq. (2004).

⁸⁶ See *id.* § 163(h)(3) (showing the deduction for mortgage interest) and § 1(h) (showing the maximum capital gains rate of 15%).

⁸⁷ *Id.* § 24.

⁸⁸ *Id.*

⁸⁹ See *id.* § 24(c)(1).

⁹⁰ See *id.* § 24.

also outlines income limitations with respect to the parents claiming the child tax credit.⁹¹ Parents earning above certain income levels and parents earning below certain income levels cannot claim the credit.⁹² Also, while the credit can be refundable, low income families do not meet the requisite threshold whereby the credit would become refundable and therefore, the credit is worthless to them.⁹³

A. CRITICISM OF THE CURRENT CHILD TAX CREDIT

When the credit was enacted on July 1, 1997, the Committee on Finance believed that the individual income tax structure did not take into a consideration a family's reduced ability to pay taxes as family sized increased.⁹⁴ The Committee believed "that a tax credit for families with dependent children will reduce the individual income tax burden of those families, will better recognize the financial responsibilities of raising dependent children, and will promote family values."⁹⁵ While the purpose of the act is good, many argue that the purpose is not fulfilled because the credit does not reach those families that really

⁹¹ *Id.* (stating that parents above a certain income level are not eligible for the credit, and likewise parents below a certain income level are not eligible for the credit). See also H.R. CONF. REP. NO. 108-696, at 1032 (2004).

⁹² 26 U.S.C. § 24 (2004).

⁹³ H.R. CONF. REP. NO. 108-696, at 1032 (2004). See also 26 U.S.C. §24(d) (2004).

⁹⁴ S. REP. NO. 105-33, at 3 (1997).

⁹⁵ *Id.*

need the money most.⁹⁶ Specifically, the credit does not reach lower class families.⁹⁷ For 2004 the child credit is refundable to the extent of 15% of the taxpayer's taxable earned income in excess of \$10,750.⁹⁸ Therefore, the child tax credit is not refundable for those families earning less than \$10,750.⁹⁹ Thus, this tax is pretty much helping middle class America, and not benefiting the working poor.¹⁰⁰

In addition to not helping lower income families, statistics suggest that the federal government over fiscal years 2003-2013 will lose \$91 billion in tax revenue, due to the tax relief caused specifically by the child tax credit.¹⁰¹ With the government granting tons of tax relief, should not some of it be going to poor families? In response to this many proposals simply suggest making the entire child tax credit refundable for all families, so poor families can benefit from it.¹⁰² These proposals focus on the fact that while the costs of raising

⁹⁶ Sara J. Buehler, *Child Care Tax Credits, The Child Tax Credit, and The Taxpayer Relief Act of 1997: Congress' Missed Opportunity to Provide Parents Needed Relief from Astronomical Costs of Child Care*, 9 HASTINGS WOMEN'S L.J. 189, 210-211 (1998). See also Jonathan Barry Forman, *Designing a Work-Friendly Tax System*, 2 PIERCE L. REV. 131, 147 (June 2004). See also Jonathan Barry Forman, *What Can Be Done About Marriage Penalties?*, 30 FAM. L. Q. 1, 12 (1996).

⁹⁷ H.R. CONF. REP. NO. 108-696, at 1032 (2004).

⁹⁸ *Id.*

⁹⁹ *Id.*

¹⁰⁰ See Buehler, *supra* note 96, at 210-211 (assuming that the child tax credit does not help the upper or lower classes, it must be benefiting the working poor). See also 26 U.S.C. § 24 (2004).

¹⁰¹ Ronald D. Aucutt, *Keeping up with the Estate Tax*, SJ073 A.L.I.-A.B.A. 1041, 1049 (2004).

¹⁰² *Designing a Work-Friendly Tax System*, *supra* note 96 at 147. See also *What Can Be Done About Marriage Penalties?*, *supra* note 96 at 12.

children are continuing to rise, the current tax credit is not refundable for low income families and thus it is useless to them as their tax liabilities are close to zero.¹⁰³

While these proposals focus on the fact that raising a child is expensive and parents could use extra money, the proposals fail to discuss how parents themselves are more important in the raising of children than a per child credit of \$700 a year. Furthermore, they fail to discuss how the money parents receive from the child tax credit can be spent on anything and not necessarily spent on the well-being of the child as intended. One of the goals of the credit is to "promote family values," but with the money capable of being spent on anything, the credit seems to simply promote families to have more children, instead of promoting parents to truly care for and foster the children they currently have.¹⁰⁴ If parents are going to be given money from the government, then they should have a duty to raise their children well. Thus, HSAC focuses on the end result of raising children: having one's children graduate from high school.

¹⁰³ *Designing a Work-Friendly Tax System*, *supra* note 96 at 147. See also *What Can Be Done About Marriage Penalties?*, *supra* note 96 at 12.

¹⁰⁴ S. REP. NO. 105-33, at 3 (1997).

B. THE STAKEHOLDER SOCIETY: A RELEVANT PROPOSAL

Before looking at the details of HSAC, one should be aware of a comparable proposal in *The Stakeholder Society*.¹⁰⁵ In *The Stakeholder Society*, Bruce Ackerman and Anne Alstott propose stakeholding, which would enable every American to have some financial independence.¹⁰⁶ They suggest that when every American citizen reaches the age of majority, he or she should be given \$80,000.¹⁰⁷ However, a high school diploma would be required before any citizen can have unrestricted and free use of the \$80,000.¹⁰⁸ Those that do not graduate from high school will simply be able to receive annual interest payments on the \$80,000 and will not be able to touch the principal until they graduate from high school.¹⁰⁹ While stakeholding will no doubt encourage citizens to attend high school, stakeholding is aimed at redistributing wealth to ensure that every American has a solid financial opportunity to do something with his or her life.

Stakeholding also relies on a 2% wealth tax to generate sufficient tax revenue to pay for it.¹¹⁰ They do not want Americans to simply be able to consume more, but rather they want young adults to have economic independence and feel \$80,000

¹⁰⁵ BRUCE ACKERMAN & ANNE ALSTOTT, *THE STAKEHOLDER SOCIETY* 1 (Yale Univ. Press 1999).

¹⁰⁶ *Id.*

¹⁰⁷ *Id.* at 3.

¹⁰⁸ *Id.* at 7.

¹⁰⁹ *Id.* at 38.

¹¹⁰ *Id.* at 94-95.

is sufficient for such independence.¹¹¹ They feel that simply improving education is not enough to bring people out of the poverty level.¹¹² While stakeholding is relatively similar to HSAC, HSAC differs in its direct purpose of reducing high school dropouts, its focus on parents, and its cost.

VI. THE HIGH SCHOOL ATTAINMENT CREDIT (HSAC)

The first and drastic step of HSAC is to discontinue the current child tax credit for all children born after one year from today.¹¹³ Parents of children born before then would only receive the child tax credit, but parents of all children born after one year from today would only be eligible for HSAC. HSAC would replace the child tax credit with a onetime refundable lump sum credit of \$10,000 for parents of students that obtain a high school diploma, or similar certification. Students would have unlimited attempts to graduate from high school, as HSAC seeks to encourage perseverance among youth. There would be no income limitations on HSAC and it would apply equally to all children of rich and poor parents whether naturally born or adopted. Thus, HSAC, unlike the child tax credit, would be refundable for those families earning wages below the poverty level.¹¹⁴ However, like the current child tax credit, HSAC would

¹¹¹ *Id.* at 25.

¹¹² *Id.* at 27-31.

¹¹³ 26 U.S.C. § 24 (2004).

¹¹⁴ H.R. CONF. REP. NO. 108-696, at 1032 (2004).

have no limitations with regards to family size.¹¹⁵ Therefore, parents would be eligible to receive HSAC for each child.

A. PURPOSE BEHIND HSAC

Currently families are receiving a tax credit to assist them in paying for the costs of raising children. While nobody will argue that raising children is expensive, many parents arguably are not instilling the value of an education into their children. With 10% of the population between 16- through 24-years-old either not attending high school or lacking a high school credential, many parents are not raising their children to their fullest potential.¹¹⁶

HSAC would give parents the incentive to educate their children and the incentive to encourage their children to graduate from high school or obtain a similar credential. Parents from all backgrounds would benefit from HSAC, however HSAC should have its strongest impact among lower income families and single-parent families where dropout rates have generally been the highest.¹¹⁷ \$10,000 could help parents get back on their feet, or help them give their children the best

¹¹⁵ 26 U.S.C. § 24 (2004).

¹¹⁶ KAUFMAN ET AL., *supra* note 1, at 12. See also WIRT ET AL. *supra* note 9, at 53 (stating that in 2003, 13 percent of all persons ages 16-24 were neither enrolled in school nor working).

¹¹⁷ WIRT ET AL. *supra* note 9, at 61 (stating that those children whose families are in the lowest 20 percent of all family incomes are 6 times more likely to dropout of high school than their peers from high-income families). See also High School Dropout - The Learning Revolution, at http://www.thelearningweb.net/chapter08/high_school_dropouts_page273.html (last visited Mar. 26, 2005) (stating that children of single parents are twice as likely to dropout of high school).

life possible by helping them start a business, go to college, etc.

The societal impacts on the United States because of HSAC could be monumental. With fewer teenagers dropping out of high school there would arguably be less crime, fewer single mothers, less people placing a burden on the welfare system, etc. America could truly become the well-educated and prosperous country our founding fathers envisioned.

B. IMPLEMENTATION OF HSAC

Many critics of HSAC will be curious about its implementation. First, they will want to know how the government will be able to fund such a dramatic program, and secondly they will wonder what impact HSAC will have on families with young children that are relying on the current annual child tax credit to help raise their children. While, these are good questions, HSAC answers both problems.

First, the government could pay HSAC without raising taxes at all. By eliminating the current child tax credit for all children born after one year from today, the government would be saving countless dollars by not providing an annual tax credit to such children.¹¹⁸ The money saved by not giving the child tax

¹¹⁸ With the child tax credit rising to \$1,000, the government would be saving approximately \$1,000 per year per child for 16 years. This equates to a total saving of \$16,000 per child unadjusted for interest and inflation. \$16,000 is greater than \$10,000 without even considering the present discount

credit to parents would more than pay for HSAC when future children graduate from high school.¹¹⁹

Secondly, since HSAC would only be applied to every child born one year from the date of enactment, the current child tax credit would remain in effect for all children alive or conceived today. Therefore, families would not have to worry about losing their current annual credits. If the government wanted to eliminate the current child tax credit for all current families, they could apply HSAC on a prorated basis to current children. Thus, a nine-year-old child would be eligible for half of HSAC.¹²⁰ This of course would financially affect families with children alive today as they would lose the child tax credit. Still, since the child tax credit is not even helping poor families, one could argue that those that benefit from the credit are not in dire need of it. Also, even if HSAC was not implemented on a prorated basis for children alive today, HSAC would encourage parents to educate their children alive as well. With high school dropouts drastically reduced under HSAC, children alive today will be facing stiff competition in the employment sector for the majority of their

value of \$10,000 in the year of a child's birth. Thus, thousands of dollars would be saved per each child.

¹¹⁹ Implicit in this assumption is that students generally graduate from high school around the age of 18.

¹²⁰ *Id.*

lives and they will need to obtain a high school education in order to compete in the job market.

C. WHY \$10,000?

\$10,000 is not a trivial sum by any means today. However, \$10,000 still cannot pay for a year of college at a private university, it is not enough to buy a home with, nor is it enough to buy most new cars. The fact that it cannot pay for such things today, suggests that it will afford even less in years to come. Thus, the \$10,000 amount would need to be adjusted for inflation in future years. Still, even considering all of this, \$10,000 should still be a significant sum to poor families and single-parents whose children are the most likely to dropout of high school.¹²¹ Thus, \$10,000 will have the power to encourage parents to motivate their children to graduate from high school.

Another important reason for setting the refundable credit at \$10,000 is because a low amount such as \$1,000 might not provide sufficient incentive for parents to educate their children. Furthermore, a proposal too large, say \$50,000, would burden the government too much and would create several

¹²¹ WIRT ET AL. *supra* note 9, at 61 (stating that those children whose families are in the lowest 20 percent of all family incomes are 6 times more likely to dropout of high school than their peers from high-income families). See also High School Dropout - The Learning Revolution, at http://www.thelearningweb.net/chapter08/high_school_dropouts_page273.html (last visited Mar. 26, 2005) (stating that children of single parents are twice as likely to dropout of high school).

arguments relating to the redistribution of wealth that this dissertation does not wish to encounter. Setting HSAC at \$10,000 is not only a large enough amount to motivate parents to educate their children, but it is financially feasible for the government.¹²²

D. THE STAKEHOLDER SOCIETY COMPARED

Similar to stakeholding, HSAC builds on the current tax code and institutional framework in place.¹²³ However, HSAC is strikingly different as stakeholding goes directly to the young adults, whereas HSAC will go to the parents that raise the child.¹²⁴ Also, whereas stakeholding is an \$80,000 grant that gives young adults financial independence, HSAC is a more feasible \$10,000 that will encourage parents to motivate their children to graduate from high school.¹²⁵

One of the major differences between HSAC and stakeholding, is stakeholding requires a 2% wealth tax for funding.¹²⁶ HSAC, on the other hand, does not require any new taxes. It simply requires an elimination of the current child tax credit.¹²⁷ The elimination of the current tax credit will allow the government to save more tax dollars than they currently do.¹²⁸ This coupled

¹²² See *supra* note 118 (describing tax savings).

¹²³ ACKERMAN & ALSTOTT, *supra* note 105, at 219-229.

¹²⁴ *Id.* at 3.

¹²⁵ *Id.*

¹²⁶ *Id.* at 95.

¹²⁷ 26 U.S.C. § 24

¹²⁸ See *supra* note 118 (describing tax savings).

with the fact that payments of HSAC will not occur for roughly eighteen years make HSAC a feasible plan.

The results of both proposals would be similar. In the long-term, crime and spending on welfare would both be reduced, and tax revenues would be increased as more Americans would be educated and taking better paying jobs.¹²⁹ However, one could argue that with HSAC's strict requirement of high school graduation before parents receive money, a higher percentage of students would graduate under HSAC, and therefore the benefits would be increased. Furthermore, since only \$10,000 would be handed out under HSAC, people would have to continue to persevere to succeed in America, and could not relax for months or years on end as they could after receiving \$80,000 under stakeholding.

E. POSSIBLE CRITICISM OF HSAC

Beyond fears of losing the current child tax credit as already discussed, some may argue that HSAC is not a neutral tax. Critics will say that HSAC is biased towards parents who believe their children will be intelligent and will be more likely to graduate from high school. This criticism will result from the fact that uneducated parents, who believe their children will not be able to graduate from high school, may be less likely to have children. However, while this is a possible

¹²⁹ ACKERMAN & ALSTOTT, *supra* note 105, at 221.

effect of HSAC, parents of all educational backgrounds will continue to have children, and parents should realize (as shown in Part III) that all parents have the potential to motivate their children to graduate from high school. Another argument against such criticism is many tax laws are not inherently neutral. This is actually strongly evidenced by the current child tax credit which provides a credit for people with children.¹³⁰ Thus, the tax code itself quashes the neutrality argument as the tax code favors people with children over those without children and is therefore not neutral.

Another possible criticism of HSAC is how will it apply to divorced parents? HSAC would apply to the divorced parent that can claim the child as a "dependent" in the taxable year the child graduates from high school.¹³¹ This will induce both parents to play an active role in their child's education and life, as both will want to receive HSAC. However, it could result in further arguments among divorced couples regarding custody of the child in the year of graduation from high school. To prevent such arguments, divorced couples should obtain alimony agreements that determine who would incur the benefits of HSAC in the event one of their children graduates from high school. Still, divorced parents are a concern.

¹³⁰ 26 U.S.C. § 24 (2004).

¹³¹ See *id.* § 152 (defining "dependent").

Perhaps the largest criticisms of HSAC are how will HSAC help parents of disabled children and immigrant families? These are just some of the many concerns surrounding HSAC that would have to be addressed in the final version of HSAC. In regards to the former issue, there are undoubtedly children that are disabled and will be unable to graduate from high school no matter how hard they try. In order to help families with disabled children cope with the loss of the child tax credit, disability benefits would have to be increased. With this exception, there is hope that all other children possess the necessary abilities to graduate from high school.

Looking at immigrants, parents that come here with young children could have HSAC prorated based on the age of each child when that child arrives in America. So, if a child came to America at age nine, he would be eligible for half of HSAC.¹³² Consequently, immigrant families would have the same incentives to educate their children as American families.

VII. SOCIETAL IMPLICATIONS OF HSAC AND CONCLUSION

The \$10,000 refundable tax credit through HSAC will provide the necessary incentive for parents to educate their children. The main result occurring from HSAC will be an increase in the number of students graduating from high school or receiving a similar credential. However, the indirect results from having

¹³² Assuming that students graduate from high school at age 18.

more teenagers graduating from high school and obtaining an education are drastic and limitless.

With more students graduating from high school, there will likely be an increase in the number of students attending junior colleges and universities. This increase in education among those students that typically drop out of high school will in turn motivate more students to go to college and graduate schools to differentiate themselves from other high school graduates. This overall increase in education among Americans could lead to a more advanced and successful society. The increase among the educated will in turn result in more Americans seeking more intellectually challenging jobs. Such jobs will likely be higher paying and assuming the economy can provide for such an influx of educated citizens, the tax revenue should increase more than it normally would with inflation and population growth alone.

One of the drastic indirect effects of HSAC will be a reduction in people dependent on public funding (welfare). Citizens with high school diplomas will likely be able to find some form of basic work, and will not have to use food stamps at the grocery store, but instead can use their own hard earned dollars.¹³³ Thus, the federal government will save countless

¹³³ INGELS ET AL., *supra* note 3, at 29-30.

billions of dollars in the future as the welfare burden is slowly lifted off its shoulders.

Finally, perhaps the most drastic result is a reduction in crime, and specifically violent crime. As the data shows, a disproportionate number of death row and prison inmates do not have a high school diploma.¹³⁴ Perhaps if these people were educated, they would not have resorted to the heinous acts they committed. Of course one could argue that with more people educated, people that would have committed basic robberies may resort to more sophisticated forms of crime such as fraud and extortion. Even if I concede that people are born with an innate desire to do wrong, and these wrongdoers will resort to more sophisticated forms of crime, such crimes are clearly not as evil as the atrocious and violent acts occurring throughout our cities today. Nevertheless, I stand firm in my belief that less people will resort to a life of crime because of HSAC, and America will prosper.

America has been and always will be the land where people can work hard and achieve. Unfortunately however, in the twenty first century, some students need an extra incentive to achieve the American Dream. HSAC will undoubtedly encourage parents to motivate these students to graduate from high school. Finally,

¹³⁴ CHAIKEN, *supra* note 18, at 48 (showing that approximately 40 percent of state and 30 percent of federal prison inmates are high school dropouts).

while HSAC would be one of countless laws already in existence, it could definitely be the spark that not only puts America on the right course, but a better course.